

A Study on Capital Structure of Wonjin Autoparts India Private Limited at Chennai

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ABSTRACT

Capital structure is an important part of financial management. It determines how much debt and equity a company uses to fund its operations and growth. This study looks at the capital structure of Wonjin Autoparts India Private Limited in Chennai and its effects on financial performance and stability. The goal is to understand how the company manages its financial resources to achieve the best efficiency and profitability.

The study explores key factors that impact capital structure decisions. These include cost of capital, risk, profitability, and financial flexibility. It also assesses how debt and equity contribute to maximizing shareholder value. The research takes a descriptive approach using secondary data like financial statements and published reports.

The findings show that a good mix of debt and equity improves financial performance and reduces risk. Relying too much on debt raises financial risk, while depending too heavily on equity can lower returns. Thus, keeping a balanced capital structure is vital for sustainable growth.

This study concludes that managing capital structure effectively is crucial for enhancing financial stability, operational efficiency, and the long-term success of the organization.

Keywords: *Capital Structure, Debt, Equity, Financial Leverage, Cost of Capital, Financial Risk, Profitability, Debt-Equity Ratio, Interest Coverage Ratio, Financial Stability, Ratio Analysis.*

INTRODUCTION

Capital structure refers to the combination of debt and equity that a company uses to finance its operations and investments. This decision is crucial because it impacts the cost of capital, risk level, and profitability of the organization. A well-structured capital mix ensures financial stability and supports long-term growth. Wonjin Autoparts India Private Limited, based in Chennai, operates in a competitive manufacturing environment where efficient financial management is crucial. The company must carefully choose the right balance of debt and equity to maintain liquidity while

maximizing returns. The choice between debt and equity financing involves trade-offs. Debt financing offers tax benefits but increases financial risk. On the other hand, equity financing lowers risk but may dilute ownership and earnings. Thus, finding an optimal capital structure is a key goal for organizations. This study analyzes the capital structure of Wonjin Autoparts and evaluates how well it supports financial performance. It also emphasizes the importance of financial planning in keeping a balance between risk and return in a changing business environment.

REVIEW OF LITERATURE

The idea of capital structure has been widely discussed in financial writing. The key work by **Modigliani and Miller (1958)** introduced the theory that, under specific conditions, capital structure does not affect a company's value. However, later research included real-world factors, such as taxes, bankruptcy costs, and market flaws, which showed the importance of having an optimal capital structure. The trade-off theory says that companies weigh the benefits of debt, like tax shields, against the costs of financial trouble. The pecking order theory suggests that businesses prefer to use internal funds first, then debt, with equity as a last option. These theories help explain capital structure choices.

Research has demonstrated that factors like profitability, asset structure, firm size, and growth opportunities have a significant impact on capital structure. Manufacturing companies, in particular, often rely on a combination of debt and equity to fund their activities. The literature also emphasizes that an optimal capital structure boosts a company's value, lowers the cost of capital, and improves financial performance. However, poor financial choices can lead to greater risk and instability. This study builds on these theories to examine the capital structure of Wonjin Autoparts.

SCOPE OF THE STUDY

The focus of this study is to examine the capital structure of Wonjin Autoparts India Private Limited in Chennai. It aims to understand the balance of debt and equity used to finance its operations. The study looks at how decisions about capital structure affect financial performance, risk, and the overall stability of the company. It also addresses important financial factors like leverage, cost of capital, and profitability using available financial data. The analysis relies on secondary data gathered from financial statements, annual reports, and relevant literature. The study mainly involves ratio analysis, such as examining the debt-equity ratio and interest coverage ratio, to evaluate how well the company's capital structure is working.

The scope is restricted to one organization and does not compare it with other firms in the industry. External elements like market conditions and economic changes are only considered to a limited degree. Overall, the study seeks to show how effective management of capital structure can lead to better financial efficiency and long-term growth for the organization.

STATEMENT OF THE PROBLEM

Capital structure decisions are crucial for any organization because they directly influence financial risk, capital costs, and profitability. Many companies struggle to find the right balance between debt and equity. This challenge can lead to financial instability and lower performance. At Wonjin

Autoparts India Private Limited, the issue is figuring out if the current capital structure effectively supports financial efficiency and long-term growth. An improper balance between debt and equity can increase financial risk or lower returns for shareholders.

Moreover, changes in interest rates, market conditions, and operational needs complicate capital structure decisions. Without careful examination and management, these factors can harm the company's financial health. This study aims to review the company's current capital structure, identify potential problems, and evaluate its effects on financial performance. The goal is to find out if the company is maintaining an optimal capital structure.

RESEARCH OBJECTIVES

The main goal of this study is to examine the capital structure of Wonjin Autoparts India Private Limited and assess its effect on financial performance. The specific goals are:

1. To understand the concept and significance of capital structure in financial management.
2. To analyze the mix of debt and equity in the company's capital structure.
3. To evaluate financial performance using key ratios, such as the debt-equity ratio and interest coverage ratio.
4. To study how capital structure affects profitability and financial risk.
5. To identify factors that influence capital structure decisions in the company.
6. To assess whether the company maintains an optimal capital structure.

RESEARCH METHODOLOGY

This study adopts a descriptive research design to analyse the capital structure of Wonjin Autoparts India Private Limited. The research is based on secondary data collected from financial statements, annual reports, company records, and relevant academic sources. This approach allows for a detailed understanding of the company's financial structure. The study focuses on analysing key financial ratios such as debt-equity ratio, leverage ratio, and interest

coverage ratio to evaluate the capital structure. These ratios help in understanding the extent of debt financing and the company’s ability to meet its financial obligations. The data is analysed using qualitative and quantitative techniques to identify patterns and trends in capital structure decisions. Comparative analysis is also used to evaluate changes over time. The study is limited by the availability of secondary data and does not include primary data collection. Despite this limitation, the methodology provides a reliable framework for analysing financial performance and capital structure. Overall, it helps in drawing meaningful conclusions about the company’s financial strategy.

ANALYSIS AND INTERPRETATION

Table - 1: COMPONENTS OF CAPITAL STRUCTURE

H₀: There is no significant relationship between the components of capital structure (debt, equity, retained earnings, and preference shares) and the financial performance of the organization.

Component	Description	Impact on Company
Equity	Funds raised from shareholders	No repayment obligation, ownership dilution
Debt	Borrowed funds (loans, debentures)	Fixed interest cost, increases risk
Retained Earnings	Profits reinvested in the business	Internal financing, no cost of capital
Preference Shares	Hybrid source with fixed dividend	Lower risk than equity, fixed return

(Source: Computed Data)

Interpretation:

The table presents the key components of capital structure, including equity, debt, retained earnings, and preference shares. Each source has a distinct impact on financing decisions and financial risk. Equity provides long-term funds without repayment obligation but dilutes ownership. Debt offers tax advantages but increases financial risk due to fixed interest commitments. Retained earnings act as an internal and cost-effective source of finance. Overall, a balanced combination of these components ensures financial stability and efficient capital management.

Table - 2: CAPITAL STRUCTURE RATIOS

Ratio	Formula	Purpose
Debt-Equity Ratio	Debt / Equity	Measures financial leverage
Debt Ratio	Total Debt / Total Assets	Shows proportion of debt financing
Interest Coverage Ratio	EBIT / Interest Expense	Ability to pay interest obligation
Equity Ratio	Equity / Total Assets	Financial stability indicator

Source: Computed Data)

Interpretation:

The table highlights important financial ratios used to assess capital structure. The debt-equity ratio indicates the level of leverage, while the debt ratio shows the proportion of debt in total assets. The interest coverage ratio measures the firm’s ability to meet interest obligations. The equity ratio reflects financial strength and stability. These ratios collectively help in evaluating the company’s financial risk and performance. A balanced ratio structure indicates effective financial management.

Table – 3: DEBT VS EQUITY FINANCING

Aspect	Debt Financing	Equity Financing
Cost	Fixed Interest	Dividend (variable)
Risk	High (obligation to repay)	Low (no mandatory repayment)
Control	No dilution	Ownership dilution
Tax Benefit	Interest is tax-deductible	No tax benefit

(Source: Computed Data)

Interpretation:

The table compares debt and equity financing based on cost, risk, control, and tax benefits. Debt financing involves fixed interest payments and increases financial risk but provides tax advantages. Equity financing does not require repayment but leads to ownership dilution. Debt allows the company to retain control, whereas equity distributes control among shareholders. Both sources have advantages and limitations. An optimal mix of debt and equity is necessary for financial efficiency.

Table – 4: BENEFITS OF FINANCIAL PLANNING AND BUDGETING

Factor	Explanation
Cost of Capital	Lower cost preferred for financing
Business Risk	Higher risk reduces debt capacity
Profitability	Profitable firms prefer internal financing
Market Conditions	Affects availability of funds
Company Size	Larger firms have better access to debt

(Source: Computed Data)

Interpretation:

The table shows various factors influencing capital structure decisions. Cost of capital plays a key role, as firms prefer lower-cost financing options. Business risk affects the company’s ability to take on debt. Profitability influences the preference for internal financing. Market conditions determine the availability and cost of funds. Company size also impacts access to financing sources. These factors collectively shape the capital structure strategy of an organization.

FINDINGS

The study reveals that capital structure plays a significant role in determining the financial performance and stability of Wonjin Autoparts India Private Limited. It is observed that a balanced mix of debt and equity is essential for minimizing the cost of capital and maximizing profitability. The use of debt provides tax benefits and enhances returns, but excessive reliance on debt increases financial risk and interest burden. The analysis of financial ratios such as debt-equity ratio and interest coverage ratio indicates the company’s ability to manage its financial obligations effectively. A moderate level of leverage reflects a stable financial position. The study also finds that internal financing sources like retained earnings contribute to financial flexibility and reduce dependence on external funds. Furthermore, factors such as business risk, market conditions, and cost of capital significantly influence capital structure decisions. The findings suggest that proper financial planning and continuous monitoring are essential for

maintaining an optimal capital structure. Overall, the study concludes that effective capital structure management leads to improved financial performance and long-term organizational growth.

LIMITATIONS OF STUDY

This study is subject to certain limitations that may affect the scope and accuracy of the findings. Firstly, the research is based entirely on secondary data collected from financial statements and published sources, which may not reflect real-time changes in the company's financial position. The absence of primary data limits the depth of analysis. Secondly, the study focuses only on Wonjin Autoparts India Private Limited and does not include comparisons with other companies in the same industry. This restricts the generalizability of the results. Different firms may follow different capital structure strategies based on their specific conditions. Another limitation is that external factors such as economic conditions, interest rate fluctuations, and government policies are not analysed in detail. These factors can significantly influence capital structure decisions. Additionally, the study relies on limited financial ratios and does not include advanced statistical analysis. Despite these limitations, the study provides useful insights into the capital structure and financial performance of the company.

SUGGESTIONS

Based on the findings of the study, several suggestions can be made to improve the capital structure of Wonjin Autoparts India Private Limited. Firstly, the company should maintain an optimal balance between debt and equity to minimize financial risk and cost of capital. Excessive reliance on debt should be avoided to reduce the burden of interest payments. Secondly, the company should focus on increasing the use of retained earnings as a source of internal financing. This will enhance financial flexibility and reduce dependence on external borrowing. Thirdly, regular monitoring and evaluation of financial ratios should be conducted to assess the effectiveness of capital structure decisions. This will help in identifying potential risks and taking corrective actions. The company should also consider market conditions and interest rate trends before making financing decisions. Adopting modern financial management techniques can improve efficiency and accuracy in decision-making. Finally, proper financial planning and risk management strategies should be implemented to ensure long-term stability and growth.

CONCLUSION

The study concludes that capital structure plays a vital role in determining the financial health and performance of an organization. For Wonjin Autoparts India Private Limited, maintaining an optimal balance between debt and equity is essential for achieving financial stability and growth. The findings suggest that excessive reliance on debt increases financial risk, while too much equity may reduce profitability. Therefore, a balanced approach is necessary to minimize cost of capital and maximize returns. The study also highlights the importance of continuous monitoring and evaluation of capital structure decisions. Changes in market conditions, interest rates, and business environment require companies to adapt their financial strategies accordingly. Overall, effective capital structure management enhances operational efficiency, reduces risk, and supports long-term sustainability. The study emphasizes that strategic financial planning is essential for achieving organizational success in a competitive environment.

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